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IRS REMINDS TAXPAYERS THEY CAN USE STOCK LOSSES TO REDUCE TAXES

WASHINGTON – As the end of the year quickly approaches, the Internal Revenue Service reminds taxpayers that they may be able to use their losses in the stock market to reduce their tax burden.

Generally, realized capital losses are first offset against realized capital gains. Any excess losses can be deducted against ordinary income up to $3,000 ($1,500 if married filing separately) on line 13 of Form 1040.

Losses in excess of this limit can be carried forward to later years to reduce capital gains or ordinary income until the balance of these losses is used up.

Capital gains and losses on the sale or trade of investments are classified as either short-term – if the property has been held for one year or less – or long-term on Schedule D of Form 1040. Though these two categories of capital gains and losses are subject to different rates in the event of a net gain, a net capital loss resulting from either category is directly deductible from ordinary income up to the annual limit.

This provision of law often works to the taxpayer's advantage, yielding greater relief for losses than if an applicable long-term capital gains tax rate were used. Generally, capital gains rates are lower than the rates on ordinary income.

For example, if a taxpayer in the 27-percent bracket had a net long-term capital gain on stocks of $2,000, the tax due from the gain would be calculated at the 20-percent capital gains rate for a total of $400.

But if the same taxpayer has a net long-term capital loss of $2,000, the corresponding tax savings would be calculated at the individual's ordinary rate of 27 percent, for a $540 reduction in taxes.

A "paper loss" – a drop in an investment's value below its purchase price – does not qualify for this deduction. The loss must be realized through the asset's sale or exchange.

Taxpayers seeking more information on how to reduce their tax bill through by deducting stock and investment losses on their tax returns can get help from IRS Pub. 544, "Sales and Other Dispositions of Assets," IRS Pub. 564, "Mutual Fund

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Distributions," and IRS Pub. 550, "Investment Income and Expenses (Including Capital Gains and Losses)." These three publications are available at *www.irs.gov* or by calling 1-800-TAX-FORM (1-800-829-3676).

Taxpayers who may have experienced other types of financial losses may be able to take advantage of other provisions of tax law and can find help in the following publications:

- Pub. 547, "Casualties, Disasters, and Thefts"
- Pub. 527, "Residential Rental Property (Including Rental of Vacation Homes)"
- Pub. 536, "Net Operating Losses (NOLs) for Individuals, Estates and Trusts"

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